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FISCAL IMPACT STATEMENT

LS 6216

BILL NUMBER: SB 26

NOTE PREPARED: Nov 19, 2006

BILL AMENDED:

SUBJECT: Collective Bargaining for State Employees.

FIRST AUTHOR: Sen. Bowser

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: This bill allows certain state employees to bargain collectively with the state through an exclusive representative.

It requires the Education Employment Relations Board to implement the collective bargaining law.

The bill specifies the rights and duties of the employees and the employer in collective bargaining. It also provides for the recognition of exclusive representatives, payroll deductions for employee organization dues, complaint proceedings before the board, judicial review of complaints, mediation, and arbitration.

The bill also prohibits lockouts and strikes.

Effective Date: July 1, 2007.

Explanation of State Expenditures: Collective bargaining by public employees involves two major cost components which may affect the state: the cost to the Education Employment Relations Board (EERB) and the effect on wages and fringe benefits of the employees.

EERB Board: With respect to the increased costs of the EERB Board, based on the FY 2004 and FY 2005 appropriation for the Public Employees Relations Board then in existence, the additional annual cost of the board would be about \$32,500 annually. The bill establishes 12 bargaining units. The initial cost would be of holding elections to determine the exclusive representative.

Collective Bargaining Effect: The bill could lead to additional state expenditures due to negotiated contract

settlements that are over and above what might have been granted by the units without the requirement to meet and confer. The long-term impact of collective bargaining on the wages, salaries, and fringe benefits for state employees is estimated to be between \$104 M and \$156 M annually, based on current payroll of state employees. The payroll as of October 10, 2006, for about 35,818 employees was about \$1,303 M. (It is important to note that the time frame during which the wage differential would arise is not considered here. Elections and bargaining must take place over time, and the attainment of the estimated wage and benefit differential is achieved by the accumulation of contract settlements which are slightly better than what would have occurred without collective bargaining. Therefore, the total impact would not be realized immediately and, perhaps, might not be fully realized for a number of years.)

This also does not necessarily imply a commensurate increase in state expenditures. As with most other bills, the source of funds is not determined within the language of the bill. The source of funds which might be required to compensate for the impact of this bill in combination with all other state expenditures may include new tax revenues, reverted funds, funds diverted from other programs or budget categories, and/or increases in fee revenue.

Background on the Collective Bargaining Effect: With respect to the potential costs of collective bargaining, various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage, salary, and benefit levels of public employees. Most studies conclude that public sector collective bargaining differs in at least two ways from collective bargaining in the private sector:

- (1) Public sector unions have a greater influence than private sector unions on employer behavior because of their ability to work within the political process. Unions, through their lobbying efforts, can influence public sector budgets and, thus, the demand for public sector employees in addition to the level of compensation (Zax and Ichniowski, 1988).
- (2) Public sector union wage effects can differ significantly over time and are generally smaller than those in the private sector but are far from negligible (Lewis, 1990).

Wage effects are usually measured through cross-sectional statistical studies where general wage levels of government employees without collective bargaining are statistically compared to collectively bargained wage levels. By controlling for other economic variables which might influence wage levels, researchers are able to arrive at an estimate of the wage differential which is attributable to collective bargaining. After the introduction of collective bargaining, these wage level differentials would not be expected to occur immediately. Rather, the differentials would accumulate from annual contract settlements which are a little higher than what would otherwise occur without collective bargaining. Thus, over time, these small percentage wage and salary improvements due to collective bargaining accumulate into a differential which, once built into the payroll base, is paid annually.

For example, if the annual average wage settlement obtained after the introduction of collective bargaining was 4.5% and the annual wage increase that would have been obtained by employees without collective bargaining was 3.5%, then the difference would be equal to 1% of the payroll level. Over time, a series of contract settlements, over and above what would have occurred without collective bargaining, can be expected to result in an accumulated wage and salary differential.

Comprehensive literature reviews by Freeman (1986) and Lewis (1988) tend to confirm the appropriateness of these moderate, but non-negligible, collective bargaining effects on union/non-union wage differentials for all government employees in the public sector. These studies also report the effect of collective

bargaining on fringe benefits to be at least as great or greater than on wage levels. Likewise, studies by Ichniowski (1980), Edwards and Edwards (1982), and Zax (1988) suggest that collective bargaining has a considerably larger impact on fringe benefit levels than on wage levels. Lewis (1990), in a survey of 75 studies which estimated union/non-union wage and benefit differentials for various levels of government and employee groups, concluded that the average differential in total compensation (wages + fringe benefits) was 8% to 12% for the public sector. [Although the majority of statistical studies involve local governments, studies involving federal and state governments indicate that the average wage differential for the federal government employees was less than for all governmental bodies, and that the differential for local governments was above the average for all levels of government. Lewis (1990) indicated that it was not unreasonable to conclude that the wage differential at the local government level was 10% to 15%, about as great as that for all U.S. wage and salary workers.]

Not considered here, but potentially very significant, are collectively bargained conditions of employment which are not included in the estimated wage and fringe benefit increases described above.

Explanation of State Revenues: There could be some additional revenue from income tax collections on any negotiated wage and salary increases (as opposed to fringe benefit increases) that are over and above what would have been granted without collective bargaining.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources:

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